

Hindalco Industries

8 February 2013

Reuters: HALC.BO; Bloomberg: HNDL IN

Standalone Performance In Line; Retain Sell

Hindalco's 3QFY13 standalone performance was in line with our expectations, with EBITDA being 5% above our estimate but 3% below Bloomberg consensus estimate. However, PAT was 30%/10% above our/consensus estimates, respectively, largely driven by one-time non-recurring other income of Rs1,440mn. Other income jumped 253% YoY and 140% QoQ to Rs3,181mn due to one-time non-recurring income. However, interest costs also increased multifold due to higher average borrowing. Our assumptions in respect of LME (London Metal Exchange) aluminium prices are at US\$2,000/tn and US\$2,020/tn for FY13E and FY14E, respectively, and at these prices Hindalco's new expansion would be value dilutive due to meagre return ratios. We have retained our Sell rating on the stock with the target price staying unchanged at Rs96, which is 13% below the current market price.

Operational performance update: Alumina production was down 5% YoY and 1% QoQ at 326,000tn, primarily due to subdued production at Belgaum refinery on account of lower bauxite availability. Aluminium production was down 5% YoY at 139,000tn, but up 9% QoQ due to normalisation of operations after witnessing temporary disruptions in 1HFY13. Copper cathode production was down 4% YoY, but up 8% QoQ at 84,000tn. Aluminium production was 1% above our estimate, while copper and alumina production were 1% and 4% below our estimates, respectively.

Financial highlights: Overall, Hindalco reported 3% YoY and 11% QoQ jump in revenue at Rs68,717mn, largely due to higher copper volume. The company posted a 19% YoY drop in EBITDA at Rs5,821mn because of pressure on its aluminium business due to higher costs, but up 13% QoQ. Due to higher other income, PAT was down only 4% YoY at Rs4,335mn, while it was up 21% QoQ. Interest costs jumped 113% YoY and 507% QoQ due to higher average borrowing.

Segment-wise highlights: In terms of segment-wise revenue, the aluminium segment posted a drop of 1% YoY at Rs22,155mn, but it was up 5% QoQ. Copper segment's revenue was up 5% YoY and 15% QoQ at Rs46,608mn due to higher volume and realisation. In EBIT terms, the aluminium segment posted a drop of 33% YoY at Rs2,064mn, but it was up 22% QoQ. Copper segment's EBIT was up 4% YoY and 8% QoQ at Rs2,252mn.

SELL

Sector: Non-ferrous

CMP: Rs110

Target Price: Rs96

Downside: 13%

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Key Data

Current Shares O/S (mn)	1,914.6
Mkt Cap (Rsbn/US\$bn)	210/3.9
52 Wk H / L (Rs)	165/100
Daily Vol. (3M NSE Avg.)	7,122,035

Price Performance (%)

	1 M	6 M	1 Yr
Hindalco	(17.5)	(9.6)	(31.8)
Nifty Index	(1.6)	10.6	10.0

Source: Bloomberg

Standalone financials (Rsmn)	3QFY12	2QFY13	3QFY13	YoY (%)	QoQ (%)	9MFY12	9MFY13	YoY (%)
Net sales	66,470	61,635	68,717	3.4	11.5	189,497	190,632	0.6
Raw material costs	51,352	48,050	54,119	5.4	12.6	144,523	148,693	2.9
% of sales	77.3	78.0	78.8	-	-	76.3	78.0	-
Employee costs	3,040	3,129	3,082	1.4	(1.5)	8,456	9,113	7.8
% of sales	4.6	5.1	4.5	-	-	4.5	4.8	-
Other operating expenses	4,929	5,304	5,695	15.6	7.4	14,006	17,221	23.0
% of sales	7.4	8.6	8.3	-	-	7.4	9.0	-
EBITDA	7,149	5,153	5,821	(18.6)	13.0	22,512	15,605	(30.7)
EBITDA margin (%)	10.8	8.4	8.5	-	-	11.9	8.2	-
Depreciation	1,747	1,728	1,884	7.8	9.0	5,242	5,316	1.4
Interest costs	793	279	1,690	113.0	506.5	2,136	2,783	30.3
Other income	901	1,324	3,181	253.2	140.3	4,441	7,519	69.3
PBT	5,509	4,471	5,428	(1.5)	21.4	19,575	15,025	(23.2)
Provision for tax	1,002	882	1,093	9.0	23.9	3,603	2,853	(20.8)
Effective tax rate (%)	18.2	19.7	20.1	-	-	18.4	19.0	-
PAT	4,507	3,589	4,335	(3.8)	20.8	15,972	12,172	(23.8)
NPM (%)	6.8	5.8	6.3	-	-	8.4	6.4	-
EPS (Rs)	2.4	1.9	2.3	(3.8)	20.8	8.3	6.4	(23.8)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Consolidated financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	607,079	722,023	808,214	780,686	864,837
YoY (%)	(8.0)	18.9	11.9	(3.4)	10.8
EBITDA	85,865	79,287	81,894	84,824	96,558
EBITDA (%)	14.1	11.0	10.1	10.9	11.2
Adj PAT	39,255	24,564	33,970	32,398	27,172
EPS (Rs)	20.5	12.8	17.7	16.9	13.2
YoY (%)	620.9	(37.5)	38.3	(4.6)	(22.2)
RoE (%)	18.2	8.5	10.6	9.3	7.0
RoCE (%)	4.8	3.7	3.7	3.5	3.1
P/E (x)	5.4	8.6	6.2	6.5	8.3
EV/EBITDA (x)	4.3	5.3	6.6	7.4	7.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Operational and segment-wise performance

Description	3QFY12	2QFY13	3QFY13	YoY (%)	QoQ (%)	9MFY12	9MFY13	YoY (%)
Production (tn)								
Alumina	343,086	328,000	326,000	(5.0)	(0.6)	1,010,05	989,000	(2.1)
Aluminium	146,374	128,000	139,000	(5.0)	8.6	430,076	399,000	(7.2)
Copper	87,748	78,000	84,000	(4.3)	7.7	235,528	231,000	(1.9)
Segment-wise financials								
Revenue (Rsmn)								
Aluminium	22,362	21,049	22,155	(0.9)	5.3	65,425	63,829	(2.4)
Copper	44,182	40,657	46,608	5.5	14.6	124,202	126,986	2.2
Gross sales	66,543	61,706	68,763	3.3	11.4	189,627	190,816	0.6
Less: inter segment transfer	74	70	46	(38.0)	(35.0)	130	184	41.2
Net sales	66,470	61,635	68,717	3.4	11.5	189,497	190,632	0.6
EBIT (Rsmn)								
Aluminium	3,099	1,698	2,064	(33.4)	21.6	13,378	6,463	(51.7)
Copper	2,159	2,085	2,252	4.3	8.0	5,085	5,094	0.2
Unallocables	1,045	966	2,802	168.2	190.1	3,247	6,250	92.5
Total EBIT	6,303	4,749	7,118	12.9	49.9	21,711	17,808	(18.0)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Standalone results summary

Description (Rsmn)	3QFY12	2QFY13	3QFY13	YoY (%)	QoQ (%)	3QFY13E	Devi. (%)	3QFY13BBE	Devi (%)
Revenue	66,470	61,635	68,717	3.4	11.5	68,561	0.2	67,070	2.5
EBITDA	7,149	5,153	5,821	(18.6)	13.0	5,552	4.8	5,980	(2.7)
PAT	4,507	3,589	4,335	(3.8)	20.8	3,336	30.0	3,956	9.6

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 April 2012	Sell	124	110
8 May 2012	Sell	118	111
25 May 2012	Sell	111	107
16 August 2012	Sell	120	103
7 November 2012	Sell	112	96

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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